Decision ______________

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (SDG&E) (U 902-M) for Authority to Implement a Distribution Performance-Based Ratemaking Mechanism.	Application 98-01-014 (Filed January 16, 1998)
In the Matter of the Application of Southern California Gas Company to Adopt Performance Based Regulation (PBR) for Base Rates to be Effective January 1, 1997.	Application 95-06-002 (Filed June 1, 1995))
Joint Application of Pacific Enterprises, Enova Corporation, Mineral Energy Company, B Mineral Energy Sub and G Mineral Energy Sub for Approval of a Plan of Merger of Pacific Enterprises and Enova Corporation With and Into B Mineral Energy Sub (Newco Pacific Sub) and G Mineral Energy Sub (Newco Enova Sub), the Wholly Owned Subsidiaries of A Newly Created Holding Company, Mineral Energy Company.	Application 96-10-038 (Filed October 30, 1996)

DECISION GRANTING THE PETITION OF SOUTHERN CALIFORNIA GAS COMPANY AND SAN DIEGO GAS & ELECTRIC COMPANY FOR MODIFICATION OF DECISION 01-10-030

I. Summary

San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas) filed a Petition to Modify Decision (D.) 98-03-073[1] and D.01-10-030 (Petition). We grant the Petition and modify the crediting method in providing 2003 merger savings to SDG&E and SoCalGas customers to promote gas transportation rate stability.

II. Background

Pursuant to D.98-03-073, savings resulting from the merger of Enova Corporation and Pacific Enterprises[2] have generally been provided to customers through an annual bill credit in September. In D.01-10-030, the Commission authorized the extension of SoCalGas' and SDG&E's next cost-of-service (COS) cases to a 2004 Test Year and ordered additional merger savings be provided to ratepayers for 2003. We ordered the 2003 merger savings to be flowed through to SoCalGas and SDG&E gas customers through an annual bill credit in September 2003, but authorized the crediting of savings due SDG&E electric customers to offset a substantially undercollected electric regulatory account

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[1] Based on the Petition, D.98-03-073 need not be modified.

[2] Enova Corporation was the parent company of SDG&E and Pacific Enterprises was the parent company of SoCalGas. The parent companies were merged in D.98-03-073, which resulted in the utilities modifying their operations to create merger related savings.

balance in SDG&E's Transition Cost Balancing Account (TCBA).[3] SoCalGas and SDG&E now request that we similarly modify the crediting method for providing the 2003 merger savings to SoCalGas and SDG&E gas customers to promote gas transportation rate stability.

SoCalGas and SDG&E anticipate significant gas transportation rate increases on January 1, 2004, primarily related to a change in the regulatory account balances. In order to partially offset these rate increases, SoCalGas and SDG&E recommend that the 2003 merger savings be credited to certain regulatory accounts and amortized in rates over a 12-month period beginning January 1, 2004. They assert that this modification will avoid transportation rate volatility that would occur if customers received a one-time bill credit in September 2003 only to then experience a significant gas rate increase on January 1, 2004. SoCalGas and SDG&E, therefore, request that the Commission modify D.01-10-030 in order to provide gas transportation rate stability to SoCalGas and SDG&E customers.

Pursuant to D.98-03-073, customers received annual bill credits totaling $174.9 million over five years as their allocation of savings from the merger of Enova Corporation and Pacific Enterprises. These savings were allocated between SDG&E and SoCalGas and also between gas and electric customers (SDG&E only). In D.01-10-030, we calculated an additional merger savings credit of $124 million for 2003 with a 100 percent allocation to customers. Based on the factors adopted in D.98-03-073, we allocated $40.4 million to SDG&E customers and $83.6 million to SoCalGas customers. The total merger savings allocable to

[3] D.01-10-030, Ordering Paragraph, No. 2.

SDG&E customers was further allocated as $25 million to SDG&E electric customers and $15.4 million to SDG&E gas customers.

We ordered the 2003 merger savings to be refunded to SoCalGas customers and SDG&E gas customers in the same manner as set forth in D.98-03-073 – a once a year bill credit (D.01-10-030, p. 7-8). D.98-03-073 provides that SDG&E and SoCalGas shall file an advice letter no later than July 1 of each year that sets forth the merger savings to be credited on customer bills in September of that year (D.98-03-073, p. 35-36). If the credit exceeds the amount of the customer's September bill, the credit balance is carried forward and applied to subsequent bills until the credit is exhausted.

In D.01-10-030, we modified the merger savings crediting method for SDG&E electric customers for years 2001, 2002, and 2003. We found that refunding the 2001-2003 merger savings allocable to SDG&E electric customers as a credit to the TCBA was in the public interest (D.01-10-030, p. 7-8); that flowing the merger savings to SDG&E electric customers through a credit to the TCBA would allow the undercollection in the TCBA to be eliminated sooner.

III. Discussion

SoCalGas and SDG&E assert that because of developments since D.01-10-030 was issued, modification of the method for refunding the 2003 merger savings allocable to SoCalGas customers and to SDG&E gas customers in a fashion similar to the manner in which the Commission handled credits to electric customers would serve the public interest. They say that authorizing the merger savings to be credited to authorized gas regulatory accounts and then provided to customers, with interest, through amortization in rates over 12 months beginning January 1, 2004 would promote transportation rate stability because the proposed application of the merger credits would reduce customers' rates at a time where there is significant upward rate pressure.

SoCalGas proposes that the merger credit savings allocable to SoCalGas customers should be credited to the Core Fixed Cost Account (CFCA) and Noncore Fixed Cost Account (NFCA) to promote rate stability. SoCalGas forecasts gas transportation rate increases for customers beginning January 1, 2004, primarily related to changes in the regulatory account balances compared to current rates. In order to partially offset this rate increase, SoCalGas proposes to incorporate the $83.6 million merger savings refund allocable to SoCalGas customers in its authorized October 15, 2003 regulatory account balance update for amortization in rates over a 12-month period beginning January 1, 2004.[4]

The average percentage transportation rate increase due to the anticipated change in the regulatory account balances on January 1, 2004 is 9.2 percent for SoCalGas core customers and 32.1 percent for SoCalGas noncore transportation customers.[5] This increase results from forecasted regulatory account balances, which are estimated to increase SoCalGas' revenue requirement by $180 million. A major component of the increased revenue requirement is the significantly lower than forecasted revenues recorded in the CFCA caused by the unusually warm weather experienced in the first quarter of 2003, which represents $65 million of the increase and the forecasted undercollection in the NFCA caused by the forecasted noncore deliveries for 2003 anticipated to be

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[4] SoCalGas would also include the carryover from the 2002 merger savings of $116,000 in the regulatory account balance update.

[5] SoCalGas is also seeking a rate increase of approximately 8.5% in the COS proceeding (Application (A.) 02-12-027).

significantly lower than forecasted deliveries upon which rates were set, which represents $28 million of the increase.

On October 15, 2003, SoCalGas will file its regulatory account balance forecast, which will include these regulatory account balances. The true-up of these accounts plus other regulatory account balance changes will result in the above-stated rate increases on January 1, 2004. In addition to the projected rate impact associated with the forecast of SoCalGas regulatory account balances, the proposed revenue requirement changes associated with SoCalGas' performance-based regulation (PBR) sharing mechanism will also increase transportation rates. SoCalGas' revenue requirements associated with its PBR sharing mechanism are estimated to increase by $22 million ($20 million increase to core and $2 million increase to noncore in accordance with previously adopted cost allocation conventions) based on the change in the revenue requirements associated with SoCalGas' 2001 PBR sharing[6] currently embedded in 2003 rates and the proposed revenue requirements associated with the 2002 PBR sharing.[7]

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[6] SoCalGas Advice No. (AL) 3167, dated July 1, 2002, implements the annual PBR mechanism adjustments for 2001 in 2003 rates, in compliance with D.97-07-054. AL 3167 proposed a sharable earnings adjustment of $17,522,000, a PBR customer count true-up of negative $4,646,835, an allowance for mobilehome master meter conversions of $167,094, and service quality, customer satisfaction and safety incentives earned in the amount of $460,000 for a total revenue requirement of approximately $21 million refund to ratepayers.

[7] SoCalGas Draft Advice Letter, dated April 1, 2003, proposed the annual PBR mechanism adjustments for 2002 in 2004 rates, in compliance with D.97-07-054. SoCalGas proposed a sharable earnings adjustment of $4,860,000, a PBR customer count true-up of $5,383,363, an allowance for mobilehome master meter conversions of $167,094, and service quality, customer satisfaction and safety incentives earned in the amount of $520,000 for a total revenue requirement of approximately $1 million to be recovered from ratepayers.

This increase in revenue requirement represents an additional transportation rate increase of 1.6 percent and 1.3 percent to core and noncore customers, respectively, in 2004.

SoCalGas proposes to mitigate these significant rate swings by crediting the merger savings to the CFCA and NFCA, rather than refunding the merger savings through a bill credit in September. The CFCA would be credited in the amount of $74.4 million and the NFCA would be credited in the amount $9.3 million.[8] The accounts would be credited with these amounts on September 1, 2003 and would accrue interest at the authorized balancing account rate.[9] Because the merger savings refund would partially offset the forecasted large swing in amortization of regulatory account balances of a $95 million overcollection to an $85 million undercollection, this proposal would not postpone an inevitable permanent rate increase. Rather, by pursuing this alternative, anticipated transportation rate increases would be significantly reduced, promoting rate stability in years 2003 and 2004 for both core and noncore gas customers. Customers would then receive the merger savings,with interest, through amortization in rates during 2004, which would have the effect of reducing the rate increase on January 1, 2004 in the amount of 5.8 percent for core customers and 4.8 percent for noncore customers. The inclusion of the

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[8] This allocation is based on equal percent of marginal cost allocation factors contained in D.97-04-082, consistent with the allocation utilized during the prior year's bill credit process. These amounts include the carryover from the 2002 merger savings of $116,000.

[9] Pursuant to SoCalGas' Preliminary Statement (part I, J. 1.), interest will accrue in the regulatory accounts based on the most recent month's interest rate on Commercial Paper (prime, 3-month) as published in the Federal Reserve Statistical Release.

merger savings refund in 2004 rates, therefore, would result in a reduced estimated rate increase of 5.0 percent for core customers and 28.5 percent for noncore customers.[10]

SDG&E proposes that the merger credit savings allocable to SDG&E gas customers should be credited to the Rewards and Penalties Balancing Account (RPBA) to promote rate stability. Based on the anticipated SoCalGas noncore transportation rate increase due to the change in the regulatory account balances, the pass-through impact to SDG&E gas customers is $15 million.[11] The 2003 merger savings of $15.4 million allocable to SDG&E gas customers would offset this pass-through impact resulting in stable gas transportation rates for SDG&E gas customers. The SDG&E merger savings of $15.4 million, therefore, should be credited to the RPBA account, which would result in the flowing of the merger savings to SDG&E gas customers over a 12-month period beginning January 1, 2004.[12]

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[10] These estimated rate increases include the impact of the anticipated changes in amortization of regulatory account balances and the increase in revenue requirement resulting from SoCalGas' PBR sharing mechanism.

[11] SDG&E is also seeking a rate increase of approximately 9.1% for gas customers in the COS proceeding (A.02-12-028). This amount does not reflect the pass through costs associated with SoCalGas' PBR sharing mechanism and cost of service proceeding.

[12] Pursuant to SDG&E's Preliminary Statement (part II, D. 4.e (3).), the accumulated ending balance in the RPBA shall include interest calculated based on the monthly interest rate multiplied by one-half of the sum of the account balance at the beginning of the month plus the account balance at the end of the month. The interest rates used to accrue interest in the regulatory accounts are based on the most recent month's interest rate on Commercial Paper (prime, 3-month) as published in the Federal Reserve Statistical Release.

We agree with this Petition because the proposed modifications will provide gas transportation rate stability benefits. Therefore, we will modify the requirement in D.01-10-030 that the merger savings be refunded through an annual bill credit. Instead, we will provide that the merger savings refund be credited to the CFCA and NFCA for SoCalGas for amortization in rates during 2004. Similarly, we will authorize SDG&E to credit the merger savings refund to the RPBA. This approach will return the merger savings with interest to customers over 12 months, beginning January 1, 2004.

The following modifications to D.01-10-030 are reasonable:

1. The following paragraph on page 7 is revised to read:
   We agree with ORA. We will grant the motion (1) to defer the cost of COS/PBR applications for one year, and (2) to extend each utility's current PBR mechanism for one year. We base our decision on the need to make the most effective use of the Commission's and parties' resources. In D.01-06-039 we ordered Southern California Edison Company (SCE) to defer its general rate case (GRC) proceeding until Test Year 2003. This approach is consistent with the upcoming GRCs and related energy proceedings. In regard to the merger savings 50/50 sharing in the year 2003, we deny the motion. ORA's argument that post-2002 all merger savings should accrue to the ratepayers is persuasive. That is the result which would have occurred had the utilities filed timely COS/PBRs; it should not be halved because of the utilities' requested deferral. We will adopt the utilities' estimate of 2003 merger savings of $124 million and order it refunded to (1) SoCalGas ratepayers as a credit in the amount of $74.4 million to the Core Fixed Cost Account and as a credit in the amount of $9.3 million to the Noncore Fixed Cost Account on September 1, 2003 with interest accruing on the credits at the balancing account rate,[13] ~~in the same manner as current merger savings are refunded~~ (2) SDG&E gas ratepayers as a credit in the amount of $15.4 million to the Rewards and Penalties Balancing Account on September 1, 2003 with interest accruing on the credit at the balancing account rate,[14] ~~except for~~ and (3) ~~the refund to~~ SDG&E's

[13] Pursuant to SoCalGas' Preliminary Statement (part I, J. 1.), interest will accrue in the regulatory accounts based on the most recent month's interest rate on Commercial Paper (prime, 3-month) as published in the Federal Reserve Statistical Release.

electric ratepayers as a credit in the amount of $25 million to the TCBA as discussed herein.

2. The following finding of fact is revised to read: 4. The utilities' estimate of merger savings in 2003 of $124 million is reasonable; ~~it should be refunded to ratepayers in the same manner as current merger savings are refunded, except for~~ refunds due SoCalGas ratepayers, including the carryover from the 2002 merger savings, should be refunded by a credit in the amount of $74.4 million to the Core Fixed Cost Account and by a credit in the amount of $9.3 million to the Noncore Fixed Cost Account on September 1, 2003 with interest accruing on the credits at the balancing account rate; refunds to SDG&E gas ratepayers should be refunded by a credit in the amount of $15.4 million to the Rewards and Penalties Balancing Account in the amount of $15 million on September 1, 2003 with interest accruing on the credit at the balancing account rate; and refunds due SDG&E's electric ratepayers~~, which~~ should be refunded by a credit in the amount of $25 million to SDG&E's TCBA, as set forth in this decision.

3. The following ordering paragraph is revised to read: 2. The merger savings in Year 2003 is deemed to be $124 million, to be refunded 100% to ratepayers; refunds due SoCalGas ratepayers, including the carryover from the 2002 merger savings, should be refunded by a credit in the amount of $74.4 million to the Core Fixed Cost

[14] Pursuant to SDG&E's Preliminary Statement (part II, D. 4.e (3).), the accumulated ending balance in the RPBA shall include interest calculated based on the monthly interest rate multiplied by one-half of the sum of the account balance at the beginning of the month plus the account balance at the end of the month. The interest rates used to accrue interest in the regulatory accounts are based on the most recent month's interest rate on Commercial Paper (prime, 3-month) as published in the Federal Reserve Statistical Release.

> Account and by a credit in the amount of $9.3 million to the Noncore Fixed Cost Account on September 1, 2003 with interest accruing on the credits at the balancing account rate; refunds due SDG&E gas ratepayers should be refunded by a credit in the amount of $15.4 million to the Rewards and Penalties Balancing Account on September 1, 2003 with interest accruing on the credit at the balancing account rate; and ~~in the same manner as current merger savings are refunded, except for~~ refunds due SDG&E's electric ratepayers~~, which~~ should be refunded by a credit in the amount of $25 million to SDG&E's TCBA, as set forth in this decision.

IV. Comments on Draft Decision

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code, the otherwise applicable 30-day period for public review and comment is being waived.

V. Assignment of Proceeding

Susan P. Kennedy is the Assigned Commissioner and Robert Barnett is the assigned Administrative Law Judge in this proceeding.[15]

Findings of Fact

1. The average percentage transportation rate increase due to the anticipated change in the regulatory account balances on January 1, 2004 is 9.2 percent for SoCalGas core customers and 32.1 percent for SoCalGas noncore transportation customers. This increase results from forecasted regulatory account balances, which are estimated to increase SoCalGas' revenue requirement by $180 million.

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[15] While SDG&E and SoCalGas filed this Petition in A.98-01-014, A.95-06-002, and A.96-10-038, only the latter proceeding is affected by this order.

2. Based on the anticipated SoCalGas noncore transportation rate increase due to the change in the regulatory account balances, the pass-through impact to SDG&E gas customers is $15 million.

3. There is a merger savings credit of $124 million for 2003 due in September 2003, with a 100 percent allocation to customers. We allocated $40.4 million to SDG&E customers and $83.6 million to SoCalGas customers. The total merger savings allocable to SDG&E customers was further allocated $25 million to SDG&E electric customers and $15.4 million to SDG&E gas customers.

4. The 2003 merger savings of $15.4 million allocable to SDG&E gas customers would offset the $15 million pass-through impact resulting in stable gas transportation rates for SDG&E gas customers.

5. It is reasonable to credit the SDG&E merger savings of $15.4 million to the RPBA to promote rate stability.

6. It is reasonable to credit the SoCalGas merger savings to the CFCA and NFCA to provide rate stability. The CFCA would be credited in the amount of $74.4 million and the NFCA would be credited in the amount of $9.3 million.

7. SoCalGas and SDG&E should credit their respective accounts (CFCA and NFCA for SoCalGas and RPBA for SDG&E) on September 1, 2003, and accrue interest at the authorized balancing account rate.

8. By allocating the merger savings in 2003 as a credit to balancing accounts, anticipated transportation rate increases will be significantly reduced, promoting rate stability in years 2003 and 2004 for both core and noncore gas customers.

9. The merger savings with interest will be returned to customers over 12 months beginning January 1, 2004.

Conclusions of Law

1. D.01-10-030 is modified as set forth in this decision. This modification will avoid transportation rate volatility that would occur if customers received a one-time bill credit in September 2003 only to then experience a significant gas rate increase on January 1, 2004. It will provide gas transportation rate stability to SoCalGas and SDG&E customers.

2. It is reasonable to credit the SDG&E merger savings of $15.4 million to the RPBA to promote rate stability.

3. It is reasonable to credit the SoCalGas merger savings to the CFCA and NFCA to provide rate stability. The CFCA would be credited in the amount of $74.4 million and the NFCA would be credited in the amount of $9.3 million.

4. SoCalGas and SDG&E should credit their respective accounts (CFCA and NFCA for SoCalGas and RPBA for SDG&E) on September 1, 2003, and accrue interest at the authorized balancing account rate.

5. This order should be effective today to ensure that these ratemaking changes are implemented expeditiously.

O R D E R

IT IS ORDERED that:

1. Decision 01-10-03 is modified as follows:

   a. The following paragraph on page 7 is revised to read: We agree with ORA. We will grant the motion (1) to defer the cost of COS/PBR applications for one year, and (2) to extend each utility's current PBR mechanism for one year. We base our decision on the need to make the most effective use of the Commission's and parties' resources. In D.01-06-039 we ordered Southern California Edison Company (SCE) to defer its general rate case (GRC) proceeding until Test Year 2003.

This approach is consistent with the upcoming GRCs and related energy proceedings. In regard to the merger savings 50/50 sharing in the year 2003, we deny the motion. Office of Ratepayer Advocate's argument that post-2002 all merger savings should accrue to the ratepayers is persuasive. That is the result which would have occurred had the utilities filed timely COS/PBRs; it should not be halved because of the utilities' requested deferral. We will adopt the utilities' estimate of 2003 merger savings of $124 million and order it refunded to (1) SoCalGas ratepayers as a credit in the amount of $74.4 million to the CFCA and as a credit in the amount of $9.3 million to the NFCA on September 1, 2003 with interest accruing on the credits at the balancing account rate,[16] (2) SDG&E gas ratepayers as a credit in the amount of $15.4 million to the RPBA on September 1, 2003 with interest accruing on the credit at the balancing account rate,[17] and (3) SDG&E's electric ratepayers as a credit in the amount of $25 million to the TCBA as discussed herein.

b. The following finding of fact is revised to read: 4. The utilities' estimate of merger savings in 2003 of $124 million is reasonable; refunds due SoCalGas ratepayers, including the carryover from the 2002 merger savings, should be refunded by a credit in the amount of $74.4 million to the CFCA and by a credit in the amount of $9.3 million to the NFCA on September 1, 2003 with interest accruing on the credits at the

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[16] Pursuant to SoCalGas' Preliminary Statement (part I, J. 1.), interest will accrue in the regulatory accounts based on the most recent month's interest rate on Commercial Paper (prime, 3-month) as published in the Federal Reserve Statistical Release.

[17] Pursuant to SDG&E's Preliminary Statement (part II, D. 4.e (3).), the accumulated ending balance in the RPBA shall include interest calculated based on the monthly interest rate multiplied by one-half of the sum of the account balance at the beginning of the month plus the account balance at the end of the month. The interest rates used to accrue interest in the regulatory accounts are based on the most recent month's interest rate on Commercial Paper (prime, 3-month) as published in the Federal Reserve Statistical Release.

balancing account rate; refunds to SDG&E gas ratepayers should be refunded by a credit in the amount of $15.4 million to the RPBA in the amount of $15 million on September 1, 2003 with interest accruing on the credit at the balancing account rate; and refunds due SDG&E's electric ratepayers should be refunded by a credit in the amount of $25 million to SDG&E's TCBA, as set forth in this decision.

c. The following ordering paragraph is revised to read: 2. The merger savings in Year 2003 is deemed to be $124 million, to be refunded 100% to ratepayers; refunds due SoCalGas ratepayers, including the carryover from the 2002 merger savings, should be refunded by a credit in the amount of $74.4 million to the CFCA and by a credit in the amount of $9.3 million to the NFCA on September 1, 2003 with interest accruing on the credits at the balancing account rate; refunds due SDG&E gas ratepayers should be refunded by a credit in the amount of $15.4 million to the RPBA on September 1, 2003 with interest accruing on the credit at the balancing account rate; and refunds due SDG&E's electric ratepayers should be refunded by a credit in the amount of $25 million to SDG&E's TCBA, as set forth in this decision.

2. Application (A.) 98-01-014, A.95-06-002 and A.96-10-038 are closed.

This order is effective today.

Dated ___________________________, at San Francisco, California.